

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20445**

In the Matter of)	
)	CC Docket No. 00-199
2000 Biennial Regulatory Review)	
Comprehensive Review of the)	
Accounting Requirements and)	
ARMIS Reporting Requirement for)	
Incumbent Local Exchange Carriers)	
Phase 3		

**Comments of the
Rural Utilities Service**

The Rural Utilities Service (RUS) appreciates the opportunity to offer comments on this Further Notice of Proposed Rulemaking (FNPRM). RUS is an Agency of the United States Department of Agriculture, that provides financing to rural America for the purpose of furnishing and improving electric, telecommunications, and water and waste water services. For over 50 years, RUS has helped build modern telecommunications systems in rural America. Today, RUS continues to bridge the technology gap by providing financing and technical services to about 825 rural local exchange carriers.

Background

In Phase 1, the Federal Communications Commission (FCC) made accounting rule changes and reporting reform requirements for the Automated Reporting Management Information System (ARMIS) in CC Docket No. 99-253 adopted on March 2, 2000. On October 11, 2001, in Phase

2, CC Docket Nos. 00-199, 97-212 and 80-286, significant changes to Parts 32 and 64 were adopted to continue the FCC's efforts to eliminate accounting and reporting regulations that were considered to be outdated or unnecessary.

In addition to the Phase 2 changes, the FCC continued their streamlining process by seeking comments on the appropriate circumstances for eliminating accounting and reporting requirements, whether certain ARMIS information would be more appropriately collected through other means, and conforming amendments to the separation rules, all necessitated by the modifications to the Uniform system of Accounts (USoA). Comments will be considered in the FCC's FNPRN in CC Docket No. 80-286, and Phase 3 of Docket Nos. 00-199 and 99-301.

Discussion

RUS commends the FCC for the role it has had at the forefront of the telecommunications industry throughout its history, and its many successes in deregulation and streamlining efforts. Its efforts have allowed a common language for following the financial and technological aspects of a very diverse industry. State and federal agencies, as well as investors, utilize this common language. However, RUS is very concerned about the FCC's rapid pace in reducing and eliminating its Part 32 accounting and reporting requirements and its effect on this common language. Even if the requirements are eliminated, oversight will not end at this point in time. This will lead to multiple agencies and commissions establishing many differing requirements.

The FCC's accounting and reporting requirements have historically provided uniform accounting information and have served as an efficient system for the needs of management and federal and state regulators. RUS believes that the FCC should continue to mandate uniform accounting requirements.

Because of far reaching changes taking place in the industry today, it is critical that the FCC continue to prescribe basic uniform accounting and reporting rules. It is especially important, in light of the recent events related to accounting practices involving major telecommunications and other utilities companies, to be able to track and compare, on a uniform basis, the financial condition of the incumbent local exchange carriers (ILEC).

Additionally, it is critical that uniform accounting and reporting rules be maintained so that proper cost data can be collected to ensure sufficient universal service support. Detailed plant accounts at the class A level of detail are needed to monitor the deployment of the latest technology. RUS believes that the FCC should be concerned that both urban and rural areas of our country are being served with the latest technology and that no part of our country is being left behind as advances in technology bring new services. RUS also believes that the FCC should provide the accounting framework which will give regulators the ability to oversee the financial performance, service quality, and infrastructure investment of the ILECs because our country's telecommunications network is critical to homeland security. Relying solely on generally accepted accounting principles (GAAP) is insufficient and not helpful because GAAP is subject to interpretation and often allows various options for accounting and reporting as we have recently observed. A single interpretation for an entire industry provides a level playing

field for a comparison of companies and ensures that all companies benefit from a uniform set of rules.

Need for USoA

RUS requires, through its standard security instrument, that its telecommunications borrowers maintain books, records, and accounts in accordance with the methods and principles of accounting prescribed by RUS' USoA. The RUS USoA incorporates the USoA prescribed by the FCC with modifications. RUS has historically relied upon Part 32 accounts, rather than imposing different accounting requirements for telecommunications borrowers. RUS is interested in the comprehensive review of the Part 32 USoA because any changes to the accounting rules will affect the accounting requirements followed by RUS borrowers and RUS' ability to compare and monitor the financial condition of borrowers.

RUS believes that the FCC is ignoring the reality of who uses Part 32 and how it was developed. On its own initiative, the FCC organized the Telecommunications Industry Advisory Group (TIAG) in the early 1980's. The TIAG was instrumental in helping the FCC in developing what is now known as Part 32. The membership of TIAG represented numerous parties who had a vested interest in the accounting information system being implemented by the FCC in Docket 78-196. The FCC was wise at that time to recognize that the FCC was not the only user of the Part 32 USoA. Indeed, the preface to Part 32 states that "The revised Uniform System of Accounts (USoA) is a historical financial accounting system which reports the results of operational and financial events in a manner which enables both management and regulators to assess these results within a specified accounting period. The USoA also provides the financial community and others with financial performance results."

The FCC has long recognized that the USoA serves multiple users. Only recently has the FCC stated in this FNPRM that if the FCC cannot identify a federal need for a regulation, there is no justification in maintaining the requirement at the federal level. This statement contradicts the long history of maintaining one USoA that serves multiple users (i.e. the FCC, the states, RUS, and others). Clearly, RUS is a federal agency which has a continuing need for maintaining the USoA. It is much more efficient, less burdensome, more cost effective, and will provide for more uniformity of information if the FCC, the states, and RUS rely on one uniform accounting system. This is especially true for ILECs that operate in multiple states and could face multiple accounting requirements.

One Uniform System of Accounts is good public policy.

Rural versus Urban

With the impact of new technology, changes in network infrastructure, and changes in the marketplace for telecommunications services, environments that create competitive local exchange markets are necessary. Broadband, digital subscriber lines (DSL), wireless, cable television, special access, and universal service are important to consumers in all markets. One of the goals of RUS is to provide rural America with access to advanced telecommunications services.

What types of services should be provided to rural America? What kind of facilities does the service provider need to offer? All of the parties involved, the telecommunications providers, regulators, investors, and customers, need information that is sufficient, relevant, comparable, and timely to make good decisions on deployment of advanced telecommunications services in rural America.

The FCC's accounting and reporting rules were designed to provide uniform accounting data and information concerning the financial condition of the service providers. This system enables both management and regulators to assess the financial performance within a specified accounting period.

Decisions that need to be made by management, regulators, investors, and lenders can be made using the current information available. RUS is concerned that the FCC and state regulators would be left with a minimum accounting system providing insufficient information to make decisions that impact the nation's telecommunications industry and rural America.

Universal Service

RUS is very concerned about the continuation of Part 32, and about the reliability of the information needed for Universal Service support. USoA data is currently used to calculate high cost support in the Universal Service Program and it is critical that sufficient details be maintained in the Part 32 accounting system to enable calculation of high cost support on a consistent and reliable basis. RUS is working in concert with its borrowers and with the FCC based on many of the recommendations of the Rural Task Force to build telecommunications infrastructure that will provide the same kinds of services for rural communities that are available in more densely populated areas of our country. Universal Service mechanisms will help stimulate this process and will help to make advanced telecommunications services more affordable for rural consumers. The FCC's accounting and reporting rules serve to ensure proper cost data on which to base a system of sufficient Universal Service support. Accurate accounting and reporting data is still needed today and will continue to be needed in order to validate the universal service support mechanisms.

Homeland Security

The lives of all Americans, both urban and rural, were changed on September 11, 2001. Detailed information about the service quality and infrastructure of the Nation's telecommunications systems is required by various federal, state, and local agencies to develop disaster and

contingency plans necessary in the event of a national emergency. For example, service quality information contains data on service outages and the continuing property records of a company would contain detailed information about plant investment. This information is currently required through ARMIS reports and Part 32 accounting rules respectively. Without this data how could the FCC, or other parties that rely on it, affirm that national security issues are addressed?

RUS asks the FCC to look past the burden involved in maintaining the USoA and focus on the reasons why the USoA is needed and the purpose it serves. The USoA serves as the primary financial accounting system that collects and reports the results of operating and financial information in a manner that allows management, regulators, investors, and others to analyze these results quickly. The data collected is comparable from one service provider to another.

Continuing Property Records

The Continuing Property Records (CPRs) serve the interests of all parties involved and should not be eliminated. They ensure that the largest and most important accounts, the network plant accounts, accurately reflect those assets actually used and useful for telecommunications service. They provide data for jurisdictional separation and cost allocation studies. The CPRs are used by all levels of government in valuations of property for sales and mergers, property tax assessments, and developing depreciating rates.

Eliminating the CPRs would create numerous problems. If CPRs are eliminated each service provider would have to develop their own procedures for capitalization and expensing of costs. There would be no consistency among them. It is very unlikely that another information source, comparable among companies and useful to regulators, would be developed. Without some standard for all to follow, each service provider could create or change their procedures depending on financial conditions. This could also have a detrimental effect on the calculation of universal service support, since this calculation is based on utility plant in service.

Generally Accepted Accounting Principles (GAAP)

The FCC proposes to eliminate all accounting and reporting requirements by a specific date and rely entirely on GAAP. GAAP standards are very broad, subject to interpretation, and not always uniform. Users of financial and accounting information can make informed decisions only through the use of uniform information.

If ILECs are to be the carriers of last resort, they should be subject to regulatory oversight until there is sufficient local competition. Without the accounting and reporting requirements of the FCC, irregularities similar to those making the national headlines may go unnoticed. The general uneasiness over the lack of accounting requirements indicates a need for continued accounting requirements. RUS believes that any sunset period for the system of accounts could be viewed as an abdication of government's oversight responsibility.

GAAP is subject to interpretation and without uniform accounting and reporting requirements to interpret GAAP, ILECs would develop a multitude of accounting systems. This would make it almost impossible for anyone to analyze their data in a meaningful way. If state commissions are allowed to create their own systems this would place an unnecessary burden on the ILECs. RUS has its own reporting requirements which are based on the USoA. The absence of a USoA will lead to arbitrary decisions in defining the contents of segments of these reports, and thus lose comparability among companies. Elimination of prescribed accounting for telecommunications companies could also lead to variations in the calculation of Universal Service Fund contributions.

The FCC's system adds structure to GAAP and reduces regulatory lag because ILECs are aware up front of what is expected. The FCC needs to retain its oversight to preclude questionable accounting practices.

Conclusion

RUS believes having a USoA maintained by the FCC provides an industry standard for collecting and reporting information. Public access to this information in a single comparable format is an integral component of industry information being useful. Only the FCC has the ability to require standards across state lines for the larger national companies. Therefore, having the FCC set the standards for the telecommunications accounting is good public policy.

The information required by the USoA is necessary and used by states and federal agencies not only in setting rates, but also in setting public policy. In the absence of a FCC USoA, such requirements would have to be established by individual states or other federal agencies. The FCC has been the leader in information gathering and setting policy on telecommunications issues and this should continue. The costs to the industry and government if the FCC no longer maintains a USoA would be significantly higher since there will be multiple standards by individual states and by other federal agencies.

RUS urges the FCC not to abandon Part 32. It is not in the public interest. RUS believes that any major overhaul of Part 32 should proceed slowly as a collaborative effort involving those entities originally involved in the TIAG along with any additional parties that have an interest in the outcome of the process. RUS would again like to express its appreciation for the opportunity to offer these comments.

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Date